

VZCZCXYZ0000
RR RUEHWEB

DE RUEHBU #0356/01 0791908
ZNR UUUUU ZZH
R 191908Z MAR 08
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 0543
INFO RHMFIUU/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC
RUEHC/DEPT OF LABOR WASHINGTON DC
RHMFIUU/HQ USSOUTHCOM MIAMI FL
RUCNMER/MERCOSUR COLLECTIVE

UNCLAS BUENOS AIRES 000356

SIPDIS

SIPDIS
SENSITIVE

E FOR INTL ENERGY COORDINATOR U/S JEFFERY, GREG MANUEL
EEB/ESC for DAS HENGEL, MCMANUS, JIZZO
WHA/EPSC FOR FCORNEILLE

E.O. 12958: N/A

TAGS: [EPET](#) [ENRG](#) [ECON](#) [PGOV](#) [AR](#)

SUBJECT: Argentina's "Gas Plus" Natural Gas Production Incentives:
Non-Substantial Plan With A Catch

Ref: (A) Buenos Aires 284
(B) Buenos Aires 230
(C) 07 Buenos Aires 1819
(D) 07 Buenos Aires 1456
(E) 07 Buenos Aires 1415

This cable contains sensitive information - not for internet
distribution.

Summary

¶1. (SBU) GoA Planning Minister Julio De Vido has announced a series of measures designed to avert looming energy shortages in the upcoming (austral) winter heating season. These include the extension through year-end 2008 of the GoA's "Total Energy" liquid fuel subsidy program and a "Gas Plus" plan seeking to incent new natural gas exploration by authorizing higher prices for natural gas obtained through new or untapped, hard-to-reach gas reserves. Current GoA-set price controls hold domestic wellhead prices for natural gas at around \$1.4 per million BTUs, a limit so far below world market prices that much-needed domestic gas exploration and production investment has been stalled.

¶2. (SBU) Sources queried in U.S. companies involved in the exploration and development of Argentina's natural gas resources, including Apache, Chevron and Occidental, see the GoA's heavily conditioned "Gas Plus" announcement as not enough to satisfy their desires for price liberalization but as a positive sign that the GoA is finally beginning to understand the need to employ market incentives to encourage production. A senior official at Pan American Energy, which is partnered with BP, says he believes the GoA will slowly increase natural gas prices for new discoveries and his company has pledged to invest \$800 million over the next 20 years, much of it in offshore exploration for natural gas. While the GoA continues to publicly state that new domestic oil and gas discoveries and new domestic generating capacity coming on line will see Argentina comfortably through the coming winter's heating season, the potential recurrence of domestic energy shortages of the same magnitude as Argentina experienced last austral winter raises a question mark on the performance of Argentina's industrial sector at least for the potential months of shortfalls. End Summary

GoA Outlines Plans to Avert Winter Energy Shortages

¶3. (SBU) On March 10, GoA Planning Minister Julio De Vido announced a series of measures designed to avert looming energy shortages in the upcoming (austral) winter heating season (Refs D,E). Detailed terms of both programs were published in the Official Gazette March 13. The "Gas Plus" plan, outlined in Energy Secretariat Resolution 24/2008, authorized higher prices for natural gas obtained through new or untapped, hard-to-reach gas reserves. Planning Ministry Resolution 121/2008 authorizes the extension through year-end 2008 of the "Total Energy" program, initiated in July 2007, under which the GoA subsidizes the replacement of scarce natural gas by significantly more expensive liquid fuels. In addition, the GoA will raise taxes on natural gas exports (primarily to Chile - see para. 9) by an as yet unspecified amount and, according to statements by Minister De Vido, seek to provide Chile sufficient natural gas to meet capital Santiago's residential and commercial needs. Also according to De Vido, the increase in natural gas export taxes will be used to finance higher imports from Bolivia.

"Gas Plus" Exploration Incentive Program

¶4. (SBU) Gas Plus program benefits apply to new discoveries and to "tight gas" fields, where gas that is harder and more expensive to reach has so far been left unexploited. Further, the incentive program is only open to producers enrolled in current government accords for gas supplies and prices who continue to meet supply levels spelled out in those accords. To apply for the new program, producers must provide the Energy Secretariat details about their plans, including a reserves estimate and a timeline for estimated daily production until the reserves are fully exploited or the concession ends. Additionally, for "tight" gas projects, the Energy

Secretariat wants companies to provide breakdowns of investment and SIPDIS work needed to tap the gas.

¶5. (SBU) Current GoA-set price controls hold domestic wellhead prices for natural gas at around \$1.4 per million British thermal units (MBTU), a limit that industry players, including sources in local upstream affiliates of U.S. majors Chevron, Occidental and Apache, say has put the brakes on much-needed domestic gas exploration and production investment. In contrast, Argentina currently pays \$7 per MBTU for gas imported from Bolivia. A senior official of Argentina's Bidas Energy, which partners in Pan American Energy with British Petroleum, says his company has pledged to invest \$800 million over the next 20 years in oil and gas exploration and development, including significant offshore gas exploration off of Chubut and Santa Cruz provinces. This official had previewed price liberalizations for new natural gas discoveries to the Ambassador in January and told him last week that he believes the GoA is really committed to letting prices rise gradually, pressured by market realities.

Fine Print: Open Door for Further Price Controls

¶6. (SBU) Although the Gas Plus plan provides an exemption from the GoA price and supply accords that ongoing natural gas projects are subject to, local analysts say that actual prices for gas produced from new Gas Plus projects will be subject to after-the-fact GoA intervention. The Gas Plus resolution requires that new gas must be sold on the domestic market and mandates a sale price "that must contemplate costs and a reasonable profit," code words the GoA has used in the past to justify price controls (Ref A). Another possible conflict with the new plan is that it usurps the power of provincial governments which, under a 2006 law, were given control of hydrocarbons resources following the expiration of existing federally held contracts.

¶7. (SBU) EconCouns' inquiry to Energy Secretariat Undersecretary for Hydrocarbons Rodriguez on how the GoA plans to calculate "reasonable" profits was referred to Planning Ministry Under Secretary for Coordination Roberto Barata, who declined to provide a

SIPDIS

detailed answer. A well placed official in U.S. Apache Energy's local affiliate, which develops natural gas wells in Tierra del Fuego and Neuquen provinces, echoed sentiments of his Chevron and Occidental colleagues, saying "Any natural gas price would be better than the current one, so this measure is positive. But it will not satisfy the industry, especially given the potential for continued GoA price intervention."

Argentine Natural Gas Production, Consumption

¶8. (U) The Oil and Gas Journal reports that Argentina had 15.8 trillion cubic feet (Tcf) of proven natural gas reserves in January 2008, the third-largest reserves in South America behind Venezuela's 166.3 Tcf and Bolivia's 26.5. (Local analysts note that Bolivian reserve figures are disputed and could be as low as half of this amount). While Argentine natural gas production has steadily increased over the last decade (Argentina produced 1.80 Tcf of natural gas in 2007, according to the Argentine Petroleum and Gas Institute, nearly double 1996 levels), local analysts note that new gas discoveries have not kept pace with consumption that has risen significantly in the past decade: Natural gas is currently the country's dominant fuel source, accounting for over 50% of primary energy consumption. The provinces of Neuquen, Salta, Tierra del Fuego, and Santa Cruz contain most of Argentina's natural gas production, with the Neuquen basin alone accounting for over half of Argentina's total natural gas production.

¶9. (SBU) In 2007, according to Argentine Petroleum and Gas Institute statistics, Spanish-owned Repsol-YPF (in which Argentina's Santa Cruz province entrepreneur and Kirchner family confidant Enrique Eskenazi recently purchased a 15% share) is Argentina's top natural gas producer, with about 28% of all production, followed by France's Total with about 25%, UK/Argentine Pan American Energy with about 12%, Brazil's Petrobras with 10%, Argentina's Pluspetrol with 9%, and U.S. Apache Energy with 6%.

¶10. (SBU) Argentina is a net exporter of natural gas, principally to Chile. However, this relationship has been strained since 2004, with Argentina repeatedly reducing natural gas exports to Chile to compensate for domestic shortages. Argentina is Chile's sole source of natural gas imports, and the continuing supply disruptions have caused Chile to pursue alternative energy sources, including the in-progress construction of an LNG receiving terminal. Despite being a net exporter of natural gas, Argentina also imports natural gas from Bolivia through the 270-mile, 230- million cubic ft/day (Mcf) Yacimientos-Bolivian Gulf (Yabog) pipeline. Argentina began importing natural gas again from Bolivia in 2004 to cover a domestic shortfall, which it had not done since 1999.

¶11. (SBU) In October 2006, Argentina and Bolivia signed an agreement for Argentina to import natural gas for an additional 20 years. Under the terms of the deal, Argentine imports from Bolivia are to eventually reach one billion cubic feet per day (Bcfd), a fourfold increase from current levels. The price that Argentina pays for the natural gas will also increase and eventually become linked to market rates. To facilitate this increase in volume, Argentina and Bolivia have agreed to build a new US \$1.5 billion, 710 Mcfd capacity pipeline system connecting the two countries, the Gasoducto del Noreste Argentino (GNEA). However pipeline construction has been delayed, as have expanded Bolivian deliveries. To cover anticipated winter shortfalls, at a Buenos Aires energy summit last month between the Argentine, Brazilian and Bolivian presidents (Ref B), Argentina asked Brazil to cede a small share of its gas deliveries from Bolivia in order to increase Argentina's Bolivian gas imports by a third to roughly 140 million cubic feet a day. But Brazil, which buys 1.1 billion cubic feet a day from Bolivia - roughly half the natural gas consumed by Brazil's 190 million consumers - declined and instead offered to sell Argentina.

Comment

¶12. (SBU) While officials of U.S. companies involved in the exploration and development of Argentina's natural gas resources and local hydrocarbon sector analysts tend to see the GoA's heavily conditioned "Gas Plus" announcement as economically insignificant, they agree that it is an overall positive sign that the GoA is finally beginning to understand that multinational energy firms respond more readily to the carrot of market incentives than to the sticks of public harangues on their "social obligation" to invest. However, these initial Gas Plus measures are not viewed as tackling the root of Argentina's energy crisis - the fact that low, regulated prices of natural gas and electricity charged to residential and industrial consumers have boosted consumption and discouraged private investment in the energy sector. Residential Argentine gas tariffs remain among the lowest in the world and have cost the GoA hundreds of millions of dollars. On the one hand, inexpensive energy has helped fuel economic expansion and consumer spending. On the other, Argentina has faced seasonal natural gas shortages since early 2004 and opinion polls show the Argentine public doesn't get the connection between low energy bills and energy shortages. While the GoA continues to publicly state that new domestic oil and gas discoveries and new domestic generating capacity coming on line will see Argentina comfortably through the coming austral winter's heating season, the potential recurrence of domestic energy shortages of the same magnitude as Argentina experienced last austral winter raises a question mark on the performance of Argentina's industrial sector, at least during the peak energy use months in 2008.

WAYNE